UNIT FIVE

Tapescript and answer for Activity I

Because a commercial bank can lend most of the money deposited with it to other borrowers, who in turn may lend it to another borrower, each sum of money deposited in a bank is multiplied several times. To ensure the safety of the banking system, central banks impose reserve requirements, obliging commercial banks to deposit a certain amount of money with the central bank at zero interest. Central banks in different countries also impose different "prudential ratios" on commercial banks. These are ratios between deposits and liquid assets that are considered sufficient to meet demands for cash . (A bank's assets are its loans, which should, in theory, all be paid back one day, and its liabilities are the coustomers' deposits, which can all be withdrawn one day). For example, a bank's capital ratio is between its capital and reserves on the one hand, and its total assets on the other. The reserve asset ratio is between deposits with a maturity of under two years, called "eligible liabilities," and reserve assets, which include cash and assets that are liquid – i.e. quickly convertible into cash – such as reserve deposits held by the central bank, and securities such as treasury bills. Central banks act as lender of last resort to commercial banks with liquidity problems.

Tapescript and answer for Activity II

a. reserve requirements;
b. These are ratios between deposits and liquid assets;
c. Reserve assets include cash and assets that are liquid;
d. act as lender of last resort.

Tapescript and answer for Activity III

1) Money didn't exist in ancient times, so people had to barter to obtain the items they wanted.

2) Different commodities started to be used instead of money as grains, precious metals and stones.

3) The Egyptians were the first to abandon barley as a means of exchange and adopted gold as their primary instrument and commerce.

4) The coin of the Persian Empire, bearing the image of a lion and a bull, became the standard of exchange for all trade and commerce.

5) The goldsmiths met the need of making the payment system less cumbersome.

6) The receipt given by the goldsmiths in exchange for the gold coins deposited with them began to circulate as money and they could always be redeemded for gold itself.

7) In 1916 Great Britain was first country to adopt the gold standard.

8) When the world was for the first time at war the governments began to run out of gold reserves, so, by 1914, most countries abandoned the gold standard to protect their reserves.

9) Today, money can be bought and sold in several forms: coins, bullion or just paper claim on the metal.

10) Nowadays the value of gold coins derives from their actual gold content.

11) The future contracts are nothing but a commitment to buy and sell gold at a future time at a fore agreed time.

12) Today, gold has assumed the role of a commodity such as wheat or cotton.